

## 2015 PreferredOne Insurance Company Individual Medical Rate Change

### Consumer Justification Narrative:

HIOS Part II Preliminary Justification & Written Explanation of Rate Increase PreferredOne Insurance Company Individual Product in Minnesota January 1, 2015 through December 31, 2015

1. SCOPE AND RANGE OF RATE INCREASE The purpose of this memorandum is to request a rate increase for PreferredOne Insurance Company (PIC) individual product in Minnesota with effective dates of January 1, 2015 through December 31, 2015. This justification is intended to comply with the requirements of Section 2794 of the Public Health Service Act as added by Section 1003 of the Patient Protection and Affordable Care Act (ACA). This justification may not be appropriate for purposes or scopes beyond those described above and, therefore, should not be used for other purposes. This letter specifically addresses the rate increase requested for PIC's individual product which impacts 81,437 members. The rate increase being requested for PIC's individual product is 55.5% in aggregate. The requested rate increase varies by plan within the product with a minimum increase of 39.1% and a maximum increase of 93.6%. Please note the initial 2014 proposed rate increase was 85.3% and the final implemented rate increase was 17.2%. The biggest driver of the rate change is setting PIC's underlying claims morbidity similar to the small group morbidity level. We used PIC's small group allowed claims from 2013 as the basis for claim development for the individual product. Based on research and emerging PIC 2014 individual claims data, we are finding that individual exchange populations have health status similar to historical small group books of business. Further, PIC has worked with outside consultants to estimate the risk adjustment payment or receipt due in 2015. Even with the risk adjustments, PIC exhibits experience very similar to small group. Another driver of the rate change is due to the lower Federal reinsurance recoveries. The recoveries assume in 2015 PIC will receive 50% of all PIC's individual members' per member per year incurred claims between \$70,000 and \$250,000. In 2014, rates were priced for recoveries to be 80% of claims between \$60,000 and \$250,000.

2. FINANCIAL EXPERIENCE PIC's financial experience for individual products is displayed in Table 1 below. Please note the financial experience is on pre-ACA plan designs and underwriting practices. Table 1 PreferredOne Insurance Company 2013 Claims and Premium Individual Business Allowed Claims: \$20,567,503 Incurred Claims: \$13,106,767 Earned Premium: \$19,020,945

3. CHANGES IN MEDICAL SERVICE COSTS AND TREND ASSUMPTIONS The projection of claims from the experience period to the effective period assumes 6.0% annual medical and drug trend. These trends were estimated based on data from PIC, conversations with PIC senior management, Milliman research, general industry knowledge, and our judgment of recent trends.

4. CHANGES IN BENEFITS PIC changed the maximum out-of-pocket (MOOP) for the catastrophic plans in 2015 to \$6,600 from \$6,350. In addition, deductible levels have been changed for some plans in order to maintain compliance with metal tier requirements after the application of AV adjustments requested by the MN Department of Commerce, PIC will also be offering one new bronze plan and one new network in 2015. We increased the baseline data by 4.6%, which is our estimate of the cost of covering benefits to meet the Essential Health Benefits (EHB) standard. The additional benefits and costs are specified in Table 2.

Table 2 PreferredOne Insurance Company Essential Health Benefits Benefit Rate Impact Cochlear Implants: 0.02% Eyeglasses for Children: 0.12% Basic and Major Dental Care & Child: 3.46% Orthodontia & Child: 0.84% Preventive Cancer Treatments: 0.11% Total: 4.55%

5. ADMINISTRATIVE COSTS AND ANTICIPATED PROFITS PIC targets a federally prescribed medical loss ratio of 88.3% for its individual block of business. The loss ratio as calculated in accordance with

Minnesota State law (which includes taxes and fees) is 97.1%. This loss ratio allows for total health plan administrative costs and anticipated profits. PIC's administrative expenses (as a percent of premium) decreased roughly 6% when compared to the 2014 filing. Anticipated after-tax margin increased from -2.5% in 2014 to .5% in 2015.

### **Minnesota Department of Commerce Comments:**

The State of Minnesota found the comments above regarding the small group morbidity to be confusing and asked for the carrier to provide more detailed information on the rate change for this narrative. Below is the revised Part 2 narrative provided by the carrier:

"This letter specifically addresses the rate increase requested for PICs individual product which impacts 81,437 members. The rate increase being requested for PICs individual product is 55.5 percent in aggregate. The requested rate increase varies by plan within the product with a minimum increase of 39.1 percent and a maximum increase of 93.6 percent. Please note the initial 2014 proposed rate increase was 85.3 percent and the final implemented rate increase was 17.2 percent.

A number of items were considered when developing the premium rates, including but not necessarily limited to changes in the following items

- a. Projected morbidity level of the population anticipated to purchase the plans,
- b. Anticipated medical trend, both utilization and cost of services,
- c. Applicable taxes and fees, including those applicable in 2015 under ACA,
- d. Anticipated risk adjustment payments receipts, and
- e. Anticipated contributions to the Federal Transitional Reinsurance Program.

Premium rates for the individual products were developed using PICs 2013 small group non grandfathered experience adjusted for demographic differences with the individual market, in conjunction with internal research proprietary to Milliman and other industry studies and surveys. One of the biggest driver of the rate change is setting PICs underlying claims morbidity similar to the small group morbidity level. We used PICs small group allowed claims from 2013 as the basis for claim development for the individual product. Based on research and emerging PIC 2014 individual claims data, we are finding that individual exchange populations have health status similar to historical small group books of business. Further, PIC has worked with outside consultants to estimate the risk adjustment payment or receipt due in 2015. Even with the risk adjustments, PIC exhibits experience very similar to small group

Another driver of the rate change is due to the lower Federal reinsurance recoveries. The recoveries assume in 2015 PIC will receive 50 percent of all PICs individual members per member per year incurred claims between 70,000 and 250,000. In 2014, rates were priced for recoveries to be 80 percent of claims between 60,000 and 250,000.

## 1. FINANCIAL EXPERIENCE

PICs financial experience for individual products is displayed in Table 1 below. Please note the financial experience is on pre ACA plan designs and underwriting practices.

Table 1

PreferredOne Insurance Company

2013 Claims and Premium

Individual Business

Allowed Claims 20,567,503

Incurred Claims 13,106,767

Earned Premium 19,020,945

## 2. CHANGES IN MEDICAL SERVICE COSTS AND TREND ASSUMPTIONS

The projection of claims from the experience period to the effective period assumes 6.0 percent annual medical and drug trend. These trends were estimated based on data from PIC, conversations with PIC senior management, Milliman research, general industry knowledge, and our judgment of recent trends.

## 3. CHANGES IN BENEFITS

PIC changed the maximum out of pocket MOOP for the catastrophic plans in 2015 to 6,600 from 6,350. In addition, deductible levels have been changed for some plans in order to maintain compliance with metal tier requirements after the application of AV adjustments requested by the MN Department of Commerce, PIC will also be offering one new bronze plan and one new network in 2015. We increased the baseline data by 4.6 percent, which is our estimate of the cost of covering benefits to meet the Essential Health Benefits EHB standard. The additional benefits and costs are specified in Table 2.

Table 2

## Essential Health Benefits

### Benefit Rate Impact

Cochlear Implants 0.02 percent

Eyeglasses for Children 0.12 percent

Basic and Major Dental Care Child 3.46 percent

Orthodontia Child 0.84 percent

Preventive Cancer Treatments 0.11 percent

Total 4.55 percent

## 4. ADMINISTRATIVE COSTS AND ANTICIPATED PROFITS

PIC targets a federally prescribed medical loss ratio of 88.3 percent for its individual block of business. The loss ratio as calculated in accordance with Minnesota State law which includes taxes and fees is 97.1 percent. This loss ratio allows for total health plan administrative costs and anticipated profits. PICs administrative expenses as a percent of premium decreased roughly 6 percent when compared to the 2014 filing. Anticipated after tax margin increased from negative 2.5 percent in 2014 to .5 percent in 2015."

### More comments from state:

The revised narrative above points out that the small group morbidity provided a better basis for morbidity than their own individual market experience from 2013 and before. This morbidity basis change is acceptable because 1) adjustments were made by the carrier's actuarial staff and consultants to reflect the demographic and plan design selection differences between the small group and individual market participants, and 2) the carrier's own 2013 (and earlier) individual market experience has been adequately demonstrated to state regulators to have been a poor basis for predicting the claims that this carrier will experience after January 1, 2014. Despite the high increase in last year's rates (17.2%) and the conservative risk adjustment and reinsurance receipts that this carrier had assumed for 2014 rating, this carrier had very competitive rates and has also experienced much anti-selection. All carriers are unsure of how the risk adjustment program will compensate for such anti-selection, since they do not yet know what their statewide competitors have experienced. The unique guarantee renewal rules in MN preclude this carrier from removing plans going forward that have contributed to anti-selection, such as platinum plans.